

BANKERS' BANK

July 30, 2021

Via Electronic Submission

Ms. Ann E. Misback
Secretary
Board of Governors
20th Street and Constitution Avenue, N.W.
Washington, DC 20551

Re: Request for Comment: Potential Modifications to the Federal Reserve Policy on Payment System Risk to Expand Access to Collateralized Intraday Credit, Clarify Access to Uncollateralized Credit, and Support the Deployment of the FedNow Service; Docket No. OP-1749

Dear Ms. Misback:

Bankers' Bank based in Madison, Wisconsin, a correspondent bank supporting community banks in primarily six states Wisconsin, Iowa, Illinois, Indiana, Ohio and Michigan respectfully submits the following comments on the Request for Comment: Potential Modifications to the Federal Reserve Policy on Payment System Risk to Expand Access to Collateralized Intraday Credit, Clarify Access to Uncollateralized Credit, and Support the Deployment of the FedNow Service; Docket No. OP-1749. Since our beginning in 1981, our product diversification has enabled us to meet our bank's ever-changing needs. Central to our diversification and the diversification of payment options for community banks has been the role the Fed has played in allowing universal access to payment solutions through rules, legal and policy frameworks. As we look to the future and continue our support of the success of community banking we believe that actions that the Federal Reserve takes in policy making will shape the future of access to and management of payments in the US. The success of the Federal Reserve in providing the policy framework for payment solutions up to this point has given the industry a stable, equitable and manageable method of support for ICL, ACH and wires.

Bankers' Bank supports and shares the Board of Governors' goal of improving intraday liquidity management and payment flows for the banking system while helping to mitigate the credit exposures of the Reserve Banks from daylight overdrafts, supports the deployment of the FedNowSM Service (FedNow Service), and incorporating such Federal Reserve Policy on overnight Overdrafts (Overnight Overdrafts policy) into the PSR policy.

Bankers' Bank believes in fostering safe and efficient payment and settlement systems. Given our role as a settlement partner for over 400 community based financial institutions we have a strong interest in any policy changes providing equitable treatment for those financial institutions and Bankers' Bank ability to fully support their business and settlement requirements.

- **Access to Collateralized Capacity**
 - **Expanding access to collateralized capacity**

Bankers' Bank supports the recommended changes related to expanding the pool of eligible institutions eligible to request collateralized capacity.

- **Reducing Administrative Burden**

Bankers' Bank supports the recommended changes related to expanding the pool of eligible institutions eligible to request collateralized capacity.

- **Clarifying Access to Uncollateralized Capacity**

Bankers' Bank supports the recommended changes to incorporate the details to administer the uncollateralized credit request process into the formal PSR policy. Given that support we do so with the understanding that this will not result in an increase in regulatory oversight or examination procedures for banks. Our understanding would also be that eligibility to apply and approval of would require detailed and strong methods for assessing and determining creditworthiness of such applying institution.

- **Changes to Support the Deployment of the FedNow Service**

Bankers' Bank recognizes the challenge of a 24/7/365 service and acknowledge that this will require changes to policy. We encourage that while changes are required some, such as FedNow LMT, may require further clarification and finalization for an effective policy to be written.

- **Definition of Business Day**

Bankers' Bank supports the FedNow business day aligning with other Federal Reserve provided services.

- **Daylight overdraft and penalty fee calculations**

Bankers' Bank does not currently support the Fed's proposal as we believe modifications are required for the currently proposed FedNow LMT process and do not believe that answers have been adequately determined regarding a correspondent bank's ability to manage their Master Account for participant activity and that the 24-hour payments cycle needs further clarification in regards to FedNow participants that are not operating with 7 day business days or 24-hour processing (would be 24 hour posting), those not participating at all in FedNow although do have the need to manage funding outside of Fedwire Services hours for another faster payment joint account at a Reserve Bank. Those institutions not using a 24-hour day business day would have their effective and penalty rates increased for overdrafts.

- **New posting rule for FedNow funds transfers**

Bankers' Bank acknowledges that a 24-hour business day will require 24-hour posting and supports this recommended change. We recommend that the implementation of such takes

into account how and when an institution is evolving to a 24-hour business day and allows for a transition method. Many community based financial institutions are reliant on third party processors to transition to a 24-hour business day.

- **Posting certain transactions at the regularly scheduled close of business day** Bankers' Bank supports this recommended change with the understanding that the business day would align with the other Federal Reserve provided services and not realign to a new business day such as the day used by The Clearing House.
- **Changes to the policy on overnight overdrafts** Bankers' Bank does not support the changes as written. Bankers' Bank recommends that a tool be in place for correspondent banks to set limits, have the ability to set notifications regarding funding levels and have a method within the tool to configure participants and using automation and their own credit analyses of the participant using their Master Account be able to update funding limits dynamically.

We thank the Fed and appreciate the opportunity to provide comment on these important topics. If you have any questions regarding our comments, please do not hesitate to call me at (608) 829-5784.

Sincerely,



Matt Sitkowski
EVP/Chief Operating Officer